



Cost Accounting Standards

Pricing and Negotiation Conference

Presented By:

***Tricia Kobus, Chairman, Cost
Accounting Standards
Committee***

COST ACCOUNTING STANDARDS

- **CAS Board Review Panel**
- **Defense Authorization Act--
FY2000**
- **CASB Interim Rule**
- **Changes in Cost Accounting
Practices**
- **FAR Part 30 Proposed Rule**

CAS BOARD REVIEW PANEL

□ **Congress requested GAO form Panel**

- **Review viability of CAS Board mission in light of recent acquisition reforms**
- **Include government, industry, accounting**

➤ Co-chairs:

- Dr. Jacques Gansler, Under Secretary of Defense for Acquisition & Technology**
- ▯ Mr. Nelson Gibbs, Vice President & Controller, Northrop Grumman**
- ▯ Mr. James Hinchman, Principal Assistant Comptroller General,**

- █ Major General Timothy Malishenko, USAF**
- █ Rear Admiral Leonard Vincent, USN**
- █ Mr. Michael Thibault, DCAA**
- █ Ms. Karen Wilson, Allied Signal**
- █ Mr. Larry Grow, Motorola Systems**
- █ Mr. Jack Hughes, Consultant**
- █ Dr. Louis Rosen, Ernst & Young**

- ▮ **Information and advice received**
 - ▮ **Testimony at public meetings from 25 officials from Government, industry, and private accounting**

▮ Recommendations

- ▮ **Keep current \$500,000 contract threshold**
- ▮ **Apply CAS after receipt of \$7.5M contract**
- ▮ **Raise full coverage threshold to \$50M**
- ▮ **Exempt FFP -- no certified cost/pricing data**
- ▮ **Waiver authority to contracting**

Final Reports issued to Congress April 1999

- ▮ **Review of Standards and coverage**

**NATIONAL DEFENSE
AUTHORIZATION ACT FOR
2000
CAS LEGISLATION**

DEFENSE AUTHORIZATION ACT

- ▮ Revised applicability thresholds**
- ▮ Added exemption for FFPs**
- ▮ Waiver authority**
- ▮ Study of types of CAS coverage**

DEFENSE AUTHORIZATION ACT

- ▮ **Applicability thresholds--**
 - ▮ **Individual contract--\$500,000
(current)**
 - ▮ **Trigger contract application at
\$7.5M**
 - ▮ **Raise full coverage from \$25M to
\$50M**

DEFENSE AUTHORIZATION ACT

- ▮ Exemptions to CAS--**
 - ▮ firm-fixed-price contracts awarded on basis of adequate price competition without submission of certified cost or pricing data**
 - ▮ contracts less than \$7.5M if, at award, segment has not been awarded a CAS-covered contract of \$7.5M or more**
 - ▮ FEHB contracts (FY2000 only)**

DEFENSE AUTHORIZATION ACT

- ▮ **Waiver authority--executive agency head**
 - ▮ **Contract less than \$15M if segment sells primarily commercial items and not otherwise subject to CAS**
 - ▮ **Exceptional circumstances--necessary for agency needs**

DEFENSE AUTHORIZATION ACT

- ▮ **Impact of revised thresholds (old vs. new)**
 - ▮ **Full coverage**
 - **280 segments vs. 189 segments**
 - ▮ **\$69.8B vs. \$66.5B**
 - ▮ **Modified coverage**
 - ▮ **308 segments vs. 127 segments**
 - ▮ **\$2.2B vs. \$3.7B (increased coverage)**

DEFENSE AUTHORIZATION ACT

- ▮ **Combined Impact (old vs. new)**

- ▮ **588 segments vs. 318 segments**

- ▮ **46 percent decrease**

- ▮ **\$72.0B vs. \$70.2B**

- ▮ **2.5 percent decrease**

DEFENSE AUTHORIZATION ACT

- ▮ **Study types of CAS coverage**
 - ▮ **Review CAS coverage to determine if current three types CAS-coverage are necessary-- full, modified, FAR**

CAS BOARD INTERIM RULE

Published February 7, 2000

Effective April 2, 2000

INTERIM RULE IMPLEMENTATION

- ▮ **Full coverage**
 - ▮ **Based on receipt of \$50M or more CAS-covered awards in prior accounting period**
 - ▮ **Only affects new contracts**

INTERIM RULE IMPLEMENTATION

▮ **Modified coverage**

▮ **If <\$50M CAS-covered awards in prior period and:**

▮ **If not currently performing \$7.5M CAS-covered contract**

▮ **Contracts \$500,000 or more--
no CAS**

▮ **If currently performing \$7.5M CAS-covered contract**

▮ **Contracts \$500,000 or more--**

INTERIM RULE IMPLEMENTATION

- Current contracts subject to CAS remain subject to full or modified coverage**
- Current Disclosure Statement remains in effect through completion of current CAS-covered contracts**

INTERIM RULE IMPLEMENTATION

- ▮ **Exemption for FFP contracts**
 - ▮ **Current Exemption: All FFPs without submission of any cost data.**
 - ▮ **Review Panel: All FFPs without submission of certified cost or pricing data.**
 - ▮ **DoD Legislative Proposal: All FFPs without submission of certified cost or pricing data.**

INTERIM RULE IMPLEMENTATION

- **Exemption for FFP contracts**
 - **Authorization Act: FFPs with adequate price competition and without submission of certified cost or pricing data.**
 - **CASB Interim Rule: Only FFPs with adequate price competition and without submission of certified cost or pricing data.**
 - **Current exemption deleted**

FFPs: If no certified cost CAS

Applies?
or pricing data because: **Old**
New

Commercial Item/Law or Regulation **No**
No

Adequate Price Competition and:

No cost data obtained **No**

****Review Panel recommendation and DoD
Legislative proposal would not have required Yes***
CAS coverage.
NO

INTERIM RULE IMPLEMENTATION

□ Waiver conflict due to

- CASB replacing current (b)(15) exemption with new exemption instead of adding new exemption to current CAS**
- Can be resolved by waiving CAS (contract by contract basis)**
 - Waived by Head of Executive**

INTERIM RULE IMPLEMENTATION

- **Effective April 2, 2000**
- **Comments to CASB by April 7, 2000**
 - **CAS Committee tasked to develop DoD comments to CASB**

INTERIM RULE IMPLEMENTATION

- ▮ **DCMA recommendations**
 - ▮ **Reinstate current (b)(15) exemption**
 - ▮ **CAS coverage for \$500,000+ contracts based on whether or not \$7.5M contract awarded in current or preceding year**
 - **Consistent with Authorization Act**
 - **Authorize removal of CAS if no**

INTERIM RULE IMPLEMENTATION

➤ DoD recommendations

- Reinstate current (b)(15) exemption**
- ▯ CAS coverage for \$500,000+ contracts based on whether or not direct costs incurred on \$7.5M contract in current or preceding year**
- ▯ Revise requirement for separate Disclosure Statement from \$10M to \$20M**

INTERIM RULE IMPLEMENTATION

- ▮ **Final rule to Federal Register
June 1**
 - ▮ **Expected to be published June 5
or 6**
 - ▮ **Expect no changes from interim
rule**

**CHANGES IN COST
ACCOUNTING PRACTICES**

**SNPRM-II
August 20, 1999**

□ **History**

- **April 9, 1993--SDP**
- **April 25, 1995--ANPRM**
- **September 18, 1996--
NPRM**
- **July 14, 1997--SNPRM**
- **August 20, 1999--SNPRM-
II**

Issues:

- **Significantly expands definition of change**
 - ▮ **Almost every change to system would be cost accounting practice change**
- ▮ **Addition of CAS Administration procedures to CAS rules and regulations**
- ▮ **Overly detailed, prescriptive, and**

- ▮ **CASB Benchmarking Survey**
 - ▮ **Industry declined participation**
- ▮ **CASB Open Public Meeting**
 - ▮ **Majority of testimony opposed rule**

- ▮ **Significant DoD concerns**
 - ▮ **Broad definition**
 - ▮ **Administrative nightmare**
 - ▮ **Cost impact process**
 - ▮ **Opposed adding detailed administrative requirements to CAS**

Delete in its entirety

- ▮ **DoD alternative proposal**
 - ▮ **Public meetings jointly sponsored by DDP and NCMA to discuss**
 - **Industry endorsed major issue**
 - ▮ **Submitted to CASB**
- ▮ **Final rule to Federal Register June 1**
 - ▮ **Expect to be published June 9**

**FAR PART 30
PROPOSED REVISION**

- ▮ **CAS Committee proposed revision**
 - ▮ **Cost impact process**
 - ▮ **Cognizant Federal Agency Official (CFAO) responsibilities**
 - ▮ **Awarding agency responsibilities**

- ▮ **Procedures for voluntary and mandatory changes and CAS noncompliances**
- ▮ **Three step sequential process**
 - ▮ **Materiality--GDM--detailed cost impact proposal**
- ▮ **Negotiating and resolving cost impact**
 - ▮ **CFAO must invite COs to participate in negotiations if impact is \$100,000+**

➤ **Proposed rule published April 18, 2000**

▮ **Public comments due June 19, 2000**

▮ **CAS Committee will review comments**

▮ **Email DCMA comments to:**

▮ **tkobus@dcma.hq.dla.mil**

- **Comprehensive review of all 19 Cost Accounting Standards by CASB**
 - ▮ **Recommended by Panel but not included in legislation**
 - ▮ **CASB recently voted to open case**
- ▮ **DCMA cost impact guidance**
 - ▮ **Consistency**